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SIPDIS

DEPT FOR SCA/RA, SCA/A, EEB
DEPT PASS USTR FOR LILIENFELD AND KLEIN
DEPT PASS TDA FOR STEIN AND GREENIP
NSC FOR JWOOD
TREASURY FOR ABAUKOL, BDAHL, AND MNUGENT
COMMERCE FOR DEES, CHOPPIN, AND FONOVIKH
USAID/W FOR: ASIA/SCA: CAROLINE BREARLEY; AMI MORGAN

E.O. 12958: N/A

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SUBJECT: ACTING COMMERCE MINISTER SURVEYS TRADE POLICY PRIORITIES

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Summary:
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¶1. (U) On January 26, USAID's Economic Growth Team and the Economic Counselor met with newly-designated Acting Minister of Commerce Ghulam Mohammed Aylaki to assess his support for trade liberalization and introduce the USG's new Trade and Accession Facilitation for Afghanistan (TAF) project designed during former Commerce Minister Shahrani's tenure. Acting Minister Aylaki welcomed and strongly supported a forward-leaning trade agenda, while highlighting his top four priorities at the Ministry: (1) the Afghanistan-Pakistan Transit Trade Agreement (APTTA), (2) WTO accession, (3) capacity building within the ministry, and (4) a vision for more comprehensive support of export promotion. END SUMMARY

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FIRST PRIORITY: CONCLUDE THE AFGHANISTAN-PAKISTAN TRANSIT TRADE AGREEMENT (APTTA)
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¶2. (U) Acting Minister Aylaki said APTTA was his most immediate priority. After the Afghan government obtains national treatment for Afghan trucks at the India-Pakistan Wagah border crossing, his country would have much improved access to India's near 400-million-strong middle class market. He expressed appreciation for guidance that USAID's TAF Advisor provided to Afghanistan's negotiating team during the fifth round of talks in Islamabad in December 2009. Advice centered on ensuring that concessions made or solutions proposed would be consistent with international standards and practices, in line with WTO principles. The Acting Minister noted this was very helpful and requested such assistance continue.

¶3. (SBU) Aylaki expressed appreciation for USG efforts to maintain high-level political momentum to conclude APTTA. Acknowledging the need for both sides to show flexibility, particularly on re-export issues, Aylaki added that he was also trying to establish a rapport with Pakistani Commerce Minister Fahim to help close the deal when the time was right.

¶4. (SBU) Aylaki confirmed that the Afghan business delegation led by Afghan Chamber of Commerce and Industry Vice Chair Alkozay had departed for Pakistan on January 25, well ahead of February 2-5 re-export and customs talks scheduled in Karachi. On the way to Karachi, Alkozay stopped in Peshawar to explore the possibility of forming a joint chamber of commerce and to review cross-border trade issues.

¶5. (SBU) According to Pakistani press reports, ACCI Vice Chair Alkozay did find the Peshawari Chamber leadership supportive of a bilateral free-trade arrangement that would lower or eliminate

tariffs on Pakistani-origin items such as cement, ghee, and fruit in return for similar tariff cuts on Afghan-origin products. However, the Peshawri Chamber leadership reportedly underscored to Alkozay long-standing Pakistani business concerns about re-exports.

SECOND PRIORITY: ACCELERATE WTO

¶6. (U) Despite Afghanistan's limited progress toward WTO accession since it became an Observer Member in 2004, Acting Minister Aylaki noted recent advances and stated that WTO accession is a top priority. He observed that former Minister Shahrani submitted Afghanistan's Memorandum of Foreign Trade Regime (MFTR) to the WTO in March 2009. The MFTR is a comprehensive document that presents a snapshot of a country's trading environment, key statistics and composition of the economy - the first step toward WTO accession. In May 2009, Shahrani established the WTO Unit, which now consists of two highly-qualified individuals, but lacks sufficient institutional support and authority to effectively coordinate with other ministries. Afghanistan also lacks a full-time trade representative stationed in Geneva, Switzerland dedicated to follow-up on the WTO accession process and keep Kabul informed about WTO activities.

¶7. (U) Afghanistan is currently responding to MFTR questions submitted by WTO member countries, and will need to convene an effective inter-ministerial committee (IMC) to accelerate the work. USG assistance will support the Ministry in organizing the IMC, advise the committee on responses to the MFTR by March, and support committee members at the first WTO Working Party meeting slated for late June 2010.

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THIRD PRIORITY: CAPACITY BUILDING FOR GENERATIONS, OLD AND NEW

¶8. (U) Aylaki highlighted the importance of training and mentoring, asking for help in strengthening the ministry's capabilities. USAID expressed willingness to train and advise staff but stressed that the Ministry appoint committed counterparts. The USG has had an excellent working relationship with the Director General of the WTO Unit, Mozammil Shinwari, who was appointed under Ex-Minister Shahrani. However, more trained personnel will be required to support key ministerial initiatives. Aylaki acknowledged former Minister Shahrani's effort to bring 30 young Afghan graduates of Indian universities into the Ministry, but noted "a clash of generations" had ensued as the more senior Civil Servants feared they would lose their jobs. Aylaki seemed constructive about engaging with his staff in overcoming this generational divide -- and highlighted the need to offer learning opportunities for both old and new generations within the ministry. USAID requested that both the Ministry and TAFE advisors monitor the situation to ensure both achieve a good return on resources invested in this effort.

FOURTH PRIORITY: ADDRESSING PRIVATE SECTOR NEEDS

¶9. (U) In the Acting Minister's meetings with private sector representatives -- including the handicrafts, fresh fruits, and carpet sectors (with carpets employing about 2.5 million Afghans) -- these groups requested help on overcoming trade restrictions and increasing support for export promotion and market access. Entrepreneurs noted that participation in fairs abroad was helpful but not sufficient in solving trade- and marketing-related problems. The USG's trade and Small and Medium Enterprise (SME) development programs are initiating work together with the Export Promotion Agency of Afghanistan (EPAA) to address this issue more comprehensively.

COMMENT

¶10. (SBU) President Karzai's first nominee for Commerce Minister in December 2009, Aylaki failed to garner Parliament's support; a second nominee withdrew his candidacy, and a third nomination will likely be presented soon. Parliament is scheduled to return from recess on February 21 and will reportedly not approve the semi-annual budget until the remaining unfilled ministerial posts are submitted. Should a new Minister be confirmed, Aylaki is expected to remain in the ministry in some capacity -- as a Senior Policy Advisor or Deputy Minister. Although approaching 70 years of age, with limited English and educated in the era when Command economies ruled, Aylaki was refreshingly receptive to a proactive trade agenda and USG technical assistance, and could thus prove to be a helpful partner in advancing Afghanistan's trade agenda.

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